



May 2008

700 MHz Auction Gaveled To A Close

R. J. Quianzon
quianzon@fhhlaw.com
703-812-0424

Large swaths of the spectrum formerly known as TV Channels 52 - 69 were put up for auction and the bidders came out in droves to snap up the robust broadband frequencies. Amid much media and industry fanfare, the 700 MHz auction began in January and ended several weeks later on March 18. Not to be outdone by the media, the FCC piled on with its own fanfare; within 48 hours of the auction's end, Chairman Martin held a press conference to announce that the auction would add nearly \$19 billion to the federal coffers. But the auction sold only four of the five available frequency blocks. Never one to avoid the spotlight, Congress became involved in an effort to figure out what happened to the lone fifth block.

The Auction Rakes in \$19 Billion

The FCC divided the available spectrum into five different blocks. The area covered by each block varied in size so that local bidders would have available spectrum to compete with nationwide providers.

The smallest block, the B Block, sliced the country into 734 different pieces. Many of the 100 auction winners walked away with a license in this local block and the Federal Treasury made \$9 billion from them. Larger territories – 176 regions in all – were covered by the A and E blocks, which brought in a combined total of \$5.3 billion. As expected, the largest markets – the C Block, which divided the country into only 12 huge sections – were won almost exclusively by Verizon. The total bids for the C Block were \$4.7 billion.

The grand total from the auction was \$18,957,582,150, which the FCC happily rounds up to \$19 billion when it brags to the other agencies about how they have become a profit center for the government.

The D Block Stands Alone

The combined \$19 billion total for the A, B, C and E blocks brought in far more money than a \$10 billion Congressional requirement for the auction. However, the FCC tinkered

with the Congressional requirement and the agency added minimum dollar requirements for each block. Among the requirements was a reserve price of \$1.3 billion for the D Block. During the auction, the D Block received only a single bid of \$472 million and went unsold.

In keeping with the small-to-large geographic variances among the different Blocks, the FCC created the D Block as a single license that covered the entire nation. One may wonder why Verizon did not bid on this single license rather than cobble together the C Block map noted above. The answer is found in still more tinkering that the FCC did with the D Block license. The FCC imposed an obligation on the winner of the license to cooperate with public safety agencies around the country and provide service for these agencies using the new license. In contrast to the other spectrum Blocks, a winner of the D Block knew that they would instantly have “tenants” on their new property.

The concept of such a public safety-operator partnership was proposed by several companies early in the planning process for the auction. However, when it came time to bid, those companies did not show up. Curious about this strange turn of events, Congress held hearings and the FCC’s own Inspector General reviewed the process. The Inspector General determined that nothing was awry and various members of Congress used the hearings as an opportunity to make their opinion known.

The FCC now faces the task of determining how best to use the D Block. Chairman Martin continues to promote the potential success of the public/private partnership to use the spectrum. On a daily basis, the FCC is lobbied by various industry groups or representatives with ideas on how to use the spectrum. At the very foundation, the D Block will provide an extremely robust, unencumbered 10 MHz of spectrum that can be used all over the nation. The value of the license alone is significant; the value becomes less so as the FCC adds requirements to the license. It is now up to the FCC and a cadre of well-heeled industry representatives to determine the balance of obligations that will still keep the license attractive.